

Our ref: 46769  
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**Australian  
Competition &  
Consumer  
Commission**

3 September 2013

Australian Rail Track Corporation Ltd.  
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#### **Section 44ZZBCA request for information – Gap to Turrawan Proposed Variation**

On 28 June 2013 ARTC provided documentation to the ACCC in relation to ARTC's proposed variation of the Hunter Valley Access Undertaking (HVAU) to include the Gap to Turrawan Segments of the Hunter Valley rail network. ACCC staff are currently assessing the documentation provided by ARTC and request information in relation to that documentation that the ACCC considers may be relevant to its decision on the proposed variation. The particulars of this request for information are set out at Schedule 1 to this letter.

Please provide a response in writing by 17 September 2013.

Unless information provided in response to this notice is marked confidential, it will be published on the ACCC's website. Any information that is confidential should be clearly identified. The general policy of the ACCC on the collection, use and disclosure of information is set out in the *ACCC-AER information policy: the collection, use and disclosure of information*.<sup>1</sup>

This letter, including its schedule, is a notice under section 44ZZBCA of the *Competition and Consumer Act 2010*.

If you have any questions about the contents of this letter or the attached request for information please contact Grant Kari on (03) 9290 1807.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Matthew Schroder'.

Matthew Schroder  
General Manager  
Fuel, Transport and Prices Oversight Branch

<sup>1</sup> Available on the ACCC website: <http://www.accc.gov.au/content/index.phtml/itemId/846791>

## **Schedule 1 - ACCC REQUEST FOR INFORMATION PURSUANT TO SUBSECTION 44ZZBCA**

### **DORC Valuation**

1. Please provide full copies of the following documentation relating to the DORC valuation conducted for the Gap to Turrawan segments:

- a. the asset register for the Gap to Turrawan segments, including (but not limited to):
  - i. installation dates for level crossings;
  - ii. structure reports for each bridge by equipment number;
  - iii. communications assets register;
  - iv. track configuration data (e.g. rail weights, sleeper types, etc.);
  - v. track condition charts – Werris Creek to Narrabri;
  - vi. level crossing items from the Ellipse register;
  - vii. signalling items from the Ellipse register;
  - viii. line diagrams for the Gap to Turrawan segments;
  - ix. inspection reports for each culvert by equipment number;
  - x. inspection reports for miscellaneous structures (buffer stops, cattle stops and loading structures);
  - xi. structures list for bridges, large culverts and small culverts;
  - xii. map of Gap to Turrawan rail segment to be re-valued;
  - xiii. spreadsheet of all other assets existing within the segment;
  - xiv. AK Car video of relevant track segments and TQI reports; and
  - xv. condition assessment – results of 30 tonne axle load study currently in progress;
- b. the ARTC Term Agreements made available to Evans & Peck which stipulate prices for infrastructure and have been used by Evans & Peck in its report;
- c. any other information provided by ARTC to Evans and Peck to inform the DORC valuation of the Gap to Turrawan segments;
- d. all data, estimates and previous valuations used to inform the estimation of benchmark replacement costs for each asset class, including the 'recently accepted (2010) benchmarks for other rail construction costs in NSW by IPART'<sup>2</sup>; and
- e. outputs provided by Evans & Peck to ARTC, including:
  - i. a consolidated asset database in Excel format, containing DORC data for each line item (1770 in total); and
  - ii. Excel worksheets detailing the rates build-up from direct costs and assumptions for each Evans & Peck identified asset group.

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<sup>2</sup> Evans & Peck (2013), ARTC – *Depreciated Optimised Replacement Cost Calculation for Additional Segments of the ARTC Network*, Gap to Turrawan Valuation Report, 28 June 2013, p.17

2. Evans & Peck has developed a price build-up model for a MEERA standard turnout, based on ARTC Hunter 200+ Infrastructure Guidelines. Please provide a full copy of this price build-up model, and any other price build-up models used by Evans & Peck in their current valuation.
3. Evans & Peck stated they have used benchmarks of expected life of rail from previous valuations to inform the current valuation of rail.<sup>3</sup> On what basis were these previous valuations comparable to the current valuation?
4. Evans & Peck have assumed that brownfields and greenfields construction costs are similar for rail infrastructure.<sup>4</sup>
  - a. On what basis have Evans & Peck made this assumption?
  - b. To what extent has the brownfields assumption determined the magnitude and extent of the earthworks costs included in the proposed DORC valuation?

#### **Partitioning of asset costs and application of mark-ups**

5. Evans & Peck have utilised an approach to DORC valuation of assets where the ORC is split into a number of cost categories and mark-ups applied for particular categories.<sup>5</sup> Please provide full copies of all cost evidence used by Evans & Peck to inform their advice on partitioning of an asset's costs, including:
  - a. asset procurement data that was made available to Evans & Peck;
  - b. evidence used to inform the determination of the extent of the mark-up on each asset class; and
  - c. the calculations and assumptions underpinning the mark-up for each asset class, including the proportion of each mark-up attributable to the types of costs included (e.g. indirect costs, miscellaneous costs, and client costs).
6. How has Evans & Peck ensured that costs are not 'double counted' in applying the mark-ups to reflect indirect costs and client costs? For example, how has Evans & Peck ensured that installation costs are not included in both the direct and indirect costs? What cost allocation methodology was used to inform the magnitude of indirect cost and miscellaneous cost mark-ups attributable to particular assets where a contractor would undertake multiple projects for ARTC and others?
7. Evans & Peck's valuation report includes a summary of the percentage mark-ups on direct costs.<sup>6</sup> Telecommunications is listed as having a 101% mark-up; however, later in the valuation report<sup>7</sup> it is stated to have received a 115% mark-up. Can Evans & Peck explain this difference in percentage mark-up values?
8. How have economies of scale been taken into account in the estimation of indirect costs, miscellaneous costs and client costs in the proposed DORC valuation? For example, where overhead costs may be relatively unresponsive to project size due to economies of scale.
9. How have economies of scope been taken into account in the estimation of indirect costs, miscellaneous costs and client costs in the proposed DORC valuation? For example, where a single contractor may install multiple assets and thereby may share many of the indirect, miscellaneous and client costs between projects.
10. Please provide responses to the following questions relating to the allocation of network control centre costs:

<sup>3</sup> Evans & Peck (2013), ARTC – *Depreciated Optimised Replacement Cost Calculation for Additional Segments of the ARTC Network*, Gap to Turravan Valuation Report, 28 June 2013, p.40

<sup>4</sup> Evans & Peck (2013), ARTC – *Depreciated Optimised Replacement Cost Calculation for Additional Segments of the ARTC Network*, Gap to Turravan Valuation Report, 28 June 2013, p.20

<sup>5</sup> The itemisation of an asset's cost is drawn from Evans & Peck's paper *Best Practice Cost Estimation for Publicly Funded Road and Rail Construction*, Department of Infrastructure, Transport, Regional Development and Local Government, 15 June 2008

<sup>6</sup> Evans & Peck (2013), ARTC – *Depreciated Optimised Replacement Cost Calculation for Additional Segments of the ARTC Network*, Gap to Turravan Valuation Report, 28 June 2013, p.19

<sup>7</sup> Evans & Peck (2013), ARTC – *Depreciated Optimised Replacement Cost Calculation for Additional Segments of the ARTC Network*, Gap to Turravan Valuation Report, 28 June 2013, p.45

- a. How are network control centre costs for the Hunter Valley currently recovered?
- b. Have network control centre costs been included in other regulatory asset base valuations of ARTC infrastructure, and if so on what basis have these costs been allocated to particular segments?
- c. How has ARTC/Evans & Peck ensured that these network control centre costs are not being 'double-counted' (that is, are these network control centre costs already included in ARTC's regulatory asset base for the Hunter Valley or Interstate rail networks)?

#### **Cost savings associated with modern equivalent assets**

11. ARTC have proposed to introduce a hypothetical level of operating and maintenance expenditure each year to reflect the modern engineering equivalent.<sup>8</sup>
  - a. How does ARTC propose to determine what the hypothetical operating and maintenance expenditure of a modern engineering equivalent would be?
  - b. Please provide estimates (including any supporting qualitative or quantitative evidence) on the comparable operating and maintenance expenditure of the following asset types:
    - i. Sleepers – timber, steel and heavy duty concrete.
    - ii. Bridges - concrete and steel.
    - iii. Signalling – comparison between the modern equivalent standard and the older assets identified in the asset register.
    - iv. Rail – comparison between the existing 100lb and 107lb and the modern equivalent 53kg and 60kg type of rail.

#### **Depreciation**

12. Please provide the calculations (including any relevant excel spreadsheets) behind the determination of total life and remaining life for the different types assets in each asset class. For example, in relation to rails, the 100lb sidings, the 107lb, 53kg, and 60kg rail types. Please also provide any evidence to support the assumptions underpinning these calculations.
13. The ACCC understands there is a planned investment program to cater for increased axle loading on the Gap to Turrawan Segments, which will involve replacing a number of existing assets.<sup>9</sup> How has the proposed DORC valuation taken this investment program into account in the estimation of remaining asset life for assets proposed to be replaced (for example, the 107lb rail)?

#### **Previous ARTC DORC valuations**

14. To what extent does the proposed DORC valuation for Gap to Turrawan consider previous ARTC DORC valuations as a benchmark for asset values?
15. A comparison of the proposed DORC valuation for Gap to Turrawan segments and the proposed regulatory asset value of the Dartbrook to Gap segments as at 1 January 2013 shows that the proposed value of the Gap to Turrawan segments is higher on a per kilometre basis by approximately 16 per cent.<sup>10</sup> Please provide any reasons to support this apparent per kilometre differential.

<sup>8</sup> ARTC, *Application to vary the Hunter Valley Access Undertaking to Provide for the Incorporation of Gap to Turrawan Segments of the Network*, Supporting Documentation, 28 June 2013, p.17

<sup>9</sup> Evans & Peck (2013), *ARTC – Depreciated Optimised Replacement Cost Calculation for Additional Segments of the ARTC Network*, Gap to Turrawan Valuation Report, 28 June 2013, p.39

<sup>10</sup> ARTC, *1 January to 31 December 2012 Submission to the ACCC in respect of Hunter Valley Access Undertaking Roll Forward Asset Base Ceiling Test Unders and Overs Account*, 24 May 2013, p.35

**Indicative access charges**

16. Please provide the calculations (including any relevant excel spreadsheets) underpinning the determination of the proposed Initial Indicative Access Charges for the extended Pricing Zone 3.
17. Please explain how the following factors have been taken into account in the determination of the proposed Initial Indicative Access Charges, including the weighting given to the various factors:
  - a. Volume forecasts for 2014;
  - b. Operating expenditure forecasts for 2014;
  - c. The RAB and RAB Floor Limit roll-forward of assets in the extended Pricing Zone 3 as at 1 January 2013;
  - d. The existing 2013 Initial Indicative Access Charge for the current Pricing Zone 3;
  - e. Charges negotiated for 2013 with respect to Gap to Turrawan Segments.

In particular, given that the proposed 2014 Initial Indicative Access Charges for the extended Pricing Zone 3 are not expected to recover full economic cost, please explain how ARTC has determined what proportion of full economic cost the charges should recover, and how forecasts volumes impact this consideration.

18. In comparison to the current Initial Indicative Access Charges for the existing Pricing Zone 3, the proposed Initial Indicative Charges have a higher non-TOP component and a lower TOP component. Why is this?
19. Is the proposed Initial Indicative Access Charge for the extended Pricing Zone 3 higher or lower than the current charges for the Gap to Turrawan segments negotiated with access holders? What are the reasons for the direction and magnitude of the change?
20. On page 29 of the Supporting Documentation to the Proposed Variation (Attachment 1), ARTC states that 'the proportion of the 2014 IIAC and 2014 IAC represented by the non-TOP component is X% and Y% respectively'. Please explain what 'X' and 'Y' refer to.